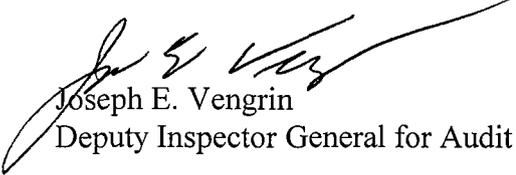




MAR 12 2007

**TO:** Joan E. Ohl  
Commissioner, Administration for Children, Youth and Families  
Administration for Children and Families

**FROM:**   
Joseph E. Vengrin  
Deputy Inspector General for Audit Services

**SUBJECT:** Audit of Costs Claimed for the Statewide Automated Child Welfare Information System in California, Sacramento County, January 1, 1999, Through June 30, 2003 (A-09-05-00060)

Attached is an advance copy of our final report on costs claimed for the statewide automated child welfare information system (SACWIS) in California. We will issue this report to the California Department of Social Services within 5 business days.

The Administration for Children and Families (ACF) requested this audit. In response to this request, we performed audits of Sacramento and Santa Clara Counties. We selected these counties based on discussions with ACF program officials and the materiality of the amount claimed for reimbursement under Title IV-E of the Social Security Act. This report contains findings for Sacramento County (Sacramento) only. The final report for Santa Clara County was previously issued under report number A-09-04-00068.

SACWIS is a comprehensive case management tool that supports social workers' foster care and adoption assistance case management practice. Reimbursement for SACWIS costs is available to a State under Title IV-E. In California, the Child Welfare Services Case Management System (CWS/CMS) is the federally approved SACWIS. The State and counties jointly developed CWS/CMS as an automated online case management system to allow child welfare workers to share and track information on child welfare service cases from initial contact through termination of services.

Our objective was to determine whether CWS/CMS-related operating costs that Sacramento claimed for Title IV-E reimbursement were allowable under Federal and State regulations.

During the period January 1, 1999, through June 30, 2003, Sacramento claimed \$11,181,417 as CWS/CMS-related operating costs for reimbursement under Title IV-E. We found that \$3,984,138 was not allowable under Federal and State regulations, and we could not determine the allowability of the remaining \$7,197,279.

- Sacramento claimed \$3,984,138 (\$1,992,069 Federal share) of unallowable costs that were not (1) directly related to the operation of CWS/CMS as required by 45 CFR § 95.605, (2) submitted for State approval as required by ACF Action Transmittal 93-3 and State Division 28 Regulations, or (3) adequately supported as required by Office of Management and Budget (OMB) Circular A-87.
- For the balance of \$7,197,279 (\$3,598,640 Federal share), Sacramento claimed operating costs that were not allocated to all child welfare service system applications shared on the county's network as required by OMB Circular A-87. These costs related not only to the operation of CWS/CMS but also to other system applications and activities within Sacramento. Until Sacramento properly allocates these costs to the benefiting system applications and activities, we are unable to determine how much of the \$3,598,640 Federal share was properly claimed.

Sacramento improperly claimed the \$11,181,417 because it did not have adequate internal controls to ensure that (1) only costs directly related to the operation of CWS/CMS were claimed for Federal reimbursement under Title IV-E, (2) all requests for CWS/CMS-related acquisitions of data processing equipment and services were submitted to the State for prior approval, (3) all costs claimed were adequately supported, and (4) operating costs were properly allocated to all child welfare service system applications or activities shared on the county network.

We recommend that the State:

- refund the \$1,992,069 Federal share of the \$3,984,138 of unallowable costs claimed;
- work with ACF to determine what portion of the \$7,197,279 (\$3,598,640 Federal share) is allowable for reimbursement under Title IV-E and refund the Federal share of any unallowable costs identified;
- review costs that Sacramento claimed for reimbursement under Title IV-E subsequent to the audit period for issues similar to those identified and refund the Federal share of any unallowable costs identified; and
- instruct Sacramento to strengthen internal controls to ensure that costs claimed are (1) directly related to the operation of CWS/CMS and allowable under Title IV-E, (2) submitted to the State for prior approval, (3) adequately supported, and (4) properly allocated to all child welfare service system applications or activities shared on the county network.

In comments on the draft report regarding the \$3,984,138 of unallowable costs claimed, the State agreed that it improperly claimed \$3,272,890 as directly related to the operation of CWS/CMS and said that it would properly allocate those costs to the appropriate funding source. The State also agreed that \$691,371 was not submitted for prior State approval but maintained that State

Division 28 Regulations did not require prior approval for projects under the \$10,000 threshold. The State said that it would work with Sacramento to identify claims that were under the threshold and adjust the claims accordingly. Finally, the State agreed that \$19,877 was not adequately supported and agreed to refund the \$9,939 Federal share.

The State said that it did not concur with the findings related to \$7,197,279 of costs not allocated to all child welfare service system applications or activities. Nevertheless, the State said that it would work with Sacramento to establish an appropriate methodology to allocate these costs and would share the information with ACF and resolve this finding appropriately.

The State did not directly comment on our final two recommendations.

The State should refund the \$1,636,445 Federal share of the \$3,272,890 of costs improperly claimed as directly related to CWS/CMS. For the costs that the State determines are allocable to other Federal programs, the State should ensure that these costs are fully supported and allowable under Federal regulations. Also, the State should refund the \$345,685 Federal share of the \$691,371 of costs not submitted for State approval. At the time of our audit, Sacramento could not demonstrate that the costs making up this amount related to individual projects that were below the \$10,000 threshold.

Regarding the \$7,197,279 of unallocated costs, we continue to recommend that the State work with ACF to determine what portion was allowable for reimbursement and refund the Federal share of any unallowable costs identified. The State also should implement the final two recommendations.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Joseph J. Green, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through e-mail at [Joe.Green@oig.hhs.gov](mailto:Joe.Green@oig.hhs.gov) or Lori A. Ahlstrand, Regional Inspector General for Audit Services, Region IX, at (415) 437-8360 or through e-mail at [Lori.Ahlstrand@oig.hhs.gov](mailto:Lori.Ahlstrand@oig.hhs.gov). Please refer to report number A-09-05-00060.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Region IX  
Office of Audit Services  
50 United Nations Plaza, Room 171  
San Francisco, CA 94102

MAR 14 2007

Report Number: A-09-05-00060

Mr. Cliff Allenby  
Interim Director  
California Department of Social Services  
744 P Street  
Sacramento, California 95814

Dear Mr. Allenby:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Audit of Costs Claimed for the Statewide Automated Child Welfare Information System in California, Sacramento County, January 1, 1999, Through June 30, 2003." A copy of this report will be forwarded to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-09-05-00060 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand".

Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services

Enclosures

**Direct Reply to HHS Action Official:**

Nash Simonet  
Director, Division of Financial Integrity  
Room 702, Aerospace Building  
370 L'Enfant Promenade SW.  
Washington, DC 20447

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF COSTS CLAIMED FOR  
THE STATEWIDE AUTOMATED  
CHILD WELFARE INFORMATION  
SYSTEM IN CALIFORNIA**

**SACRAMENTO COUNTY  
JANUARY 1, 1999, THROUGH  
JUNE 30, 2003**



Daniel R. Levinson  
Inspector General

March 2007  
A-09-05-00060

# ***Office of Inspector General***

<http://oig.hhs.gov>

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

# *Notices*

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**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR part 5.)

## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



## **EXECUTIVE SUMMARY**

### **BACKGROUND**

The Administration for Children and Families (ACF) requested that we review the statewide automated child welfare information system (SACWIS) in California. In response to this request, we performed audits of Sacramento and Santa Clara Counties. We selected these counties based on discussions with ACF program officials and the materiality of the amount claimed for reimbursement under Title IV-E of the Social Security Act. This report contains findings for Sacramento County (Sacramento) only. The final report for Santa Clara County was previously issued under report number A-09-04-00068.

SACWIS is a comprehensive case management tool that supports social workers' foster care and adoption assistance case management practice. By law, SACWIS is required to support the reporting of data to the Adoption and Foster Care Analysis and Reporting System and the National Child Abuse and Neglect Data System. As part of the Omnibus Budget Reconciliation Act of 1993, Congress provided Federal funding for SACWIS under Title IV-E.

In California, the Child Welfare Services Case Management System (CWS/CMS) is the federally approved SACWIS. Two State organizations oversee the operation of CWS/CMS: the California Department of Social Services and the Department of Technology Services (referred to collectively in this report as the State). The State and counties jointly developed CWS/CMS as an automated online case management system to allow child welfare workers to share and track information on child welfare service cases from initial contact through termination of services. The State began implementation of CWS/CMS in June 1996. Statewide implementation was completed by December 1997.

California's child welfare service programs are supervised by the State and administered by the 58 counties. Each quarter, each county submits operating costs for CWS/CMS-related activities to the State. Operating costs include the use of supplies, software, hardware, and personnel directly associated with the functioning of the automated system. The State consolidates these costs and submits a claim under Title IV-E to the Federal Government for reimbursement at a 50-percent rate.

### **OBJECTIVE**

Our objective was to determine whether CWS/CMS-related operating costs that Sacramento claimed for Title IV-E reimbursement were allowable under Federal and State regulations.

### **SUMMARY OF FINDINGS**

During the period January 1, 1999, through June 30, 2003, Sacramento claimed \$11,181,417 as CWS/CMS-related operating costs for reimbursement under Title IV-E. We found that \$3,984,138 was not allowable under Federal and State regulations, and we could not determine the allowability of the remaining \$7,197,279.

- Sacramento claimed \$3,984,138 (\$1,992,069 Federal share) of unallowable costs that were not (1) directly related to the operation of CWS/CMS as required by 45 CFR § 95.605, (2) submitted for State approval as required by ACF Action Transmittal 93-3 and State Division 28 Regulations, or (3) adequately supported as required by Office of Management and Budget (OMB) Circular A-87.
- For the balance of \$7,197,279 (\$3,598,640 Federal share), Sacramento claimed operating costs that were not allocated to all child welfare service system applications shared on the county's network as required by OMB Circular A-87. These costs related not only to the operation of CWS/CMS but also to other system applications and activities within Sacramento. Until Sacramento properly allocates these costs to the benefiting system applications and activities, we are unable to determine how much of the \$3,598,640 Federal share was properly claimed.

Sacramento improperly claimed the \$11,181,417 because it did not have adequate internal controls to ensure that (1) only costs directly related to the operation of CWS/CMS were claimed for Federal reimbursement under Title IV-E, (2) all requests for CWS/CMS-related acquisitions of data processing equipment and services were submitted to the State for prior approval, (3) all costs claimed were adequately supported, and (4) operating costs were properly allocated to all child welfare service system applications or activities shared on the county network.

## **RECOMMENDATIONS**

We recommend that the State:

- refund the \$1,992,069 Federal share of the \$3,984,138 of unallowable costs claimed;
- work with ACF to determine what portion of the \$7,197,279 (\$3,598,640 Federal share) is allowable for reimbursement under Title IV-E and refund the Federal share of any unallowable costs identified;
- review costs that Sacramento claimed for reimbursement under Title IV-E subsequent to the audit period for issues similar to those identified and refund the Federal share of any unallowable costs identified; and
- instruct Sacramento to strengthen internal controls to ensure that costs claimed are (1) directly related to the operation of CWS/CMS and allowable under Title IV-E, (2) submitted to the State for prior approval, (3) adequately supported, and (4) properly allocated to all child welfare service system applications or activities shared on the county network.

## **STATE'S COMMENTS**

In comments on the draft report regarding the \$3,984,138 of unallowable costs claimed, the State agreed that it improperly claimed \$3,272,890 as directly related to the operation of CWS/CMS and said that it would properly allocate those costs to the appropriate funding source. The State also agreed that \$691,371 was not submitted for prior State approval but maintained that State Division 28 Regulations did not require prior approval for projects under the \$10,000 threshold. The State said that it would work with Sacramento to identify claims that were under the threshold and adjust the claims accordingly. Finally, the State agreed that \$19,877 was not adequately supported and agreed to refund the \$9,939 Federal share.

The State said that it did not concur with the findings related to \$7,197,279 of costs not allocated to all child welfare service system applications or activities. Nevertheless, the State said that it would work with Sacramento to establish an appropriate methodology to allocate these costs and would share the information with ACF and resolve this finding appropriately.

The State did not directly comment on our final two recommendations. The full text of the State's comments is included as the Appendix.

## **OFFICE OF INSPECTOR GENERAL'S RESPONSE**

The State should refund the \$1,636,445 Federal share of the \$3,272,890 of costs improperly claimed as directly related to CWS/CMS. For the costs that the State determines are allocable to other Federal programs, the State should ensure that these costs are fully supported and allowable under Federal regulations. Also, the State should refund the \$345,685 Federal share of the \$691,371 of costs not submitted for State approval. At the time of our audit, Sacramento could not demonstrate that the costs making up this amount related to individual projects that were below the \$10,000 threshold.

Regarding the \$7,197,279 of unallocated costs, we continue to recommend that the State work with ACF to determine what portion was allowable for reimbursement and refund the Federal share of any unallowable costs identified. The State also should implement the final two recommendations.

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## **INTRODUCTION**

### **BACKGROUND**

The Administration for Children and Families (ACF) requested that we review the statewide automated child welfare information system (SACWIS) in California. In response to this request, we performed audits of Sacramento and Santa Clara Counties. We selected these counties based on discussions with ACF program officials and the materiality of the amount claimed for reimbursement under Title IV-E of the Social Security Act. This report contains findings for Sacramento County (Sacramento) only. The final report for Santa Clara County was previously issued under report number A-09-04-00068.

SACWIS is a comprehensive case management tool that supports social workers' foster care and adoption assistance case management practice. Each State is encouraged to add complementary functionality to its SACWIS, such as support for child protective and family preservation services. In addition, each State has the option of incorporating other programs into a SACWIS, such as Temporary Assistance for Needy Families and child care. By law, SACWIS is required to support the reporting of data to the Adoption and Foster Care Analysis and Reporting System and the National Child Abuse and Neglect Data System.

In California, the Child Welfare Services Case Management System (CWS/CMS) is the federally approved SACWIS. Two State organizations oversee the operation of CWS/CMS: the California Department of Social Services and the Department of Technology Services (referred to collectively in this report as the State). The Department of Social Services has overall responsibility for CWS/CMS and provides regulatory oversight and administrative support. The Department of Technology Services has information technology responsibilities for reviewing and approving CWS/CMS-related equipment acquisitions and services.

### **Foster Care and Adoption Assistance Data Collection System**

In 1986, Congress amended Title IV-E by adding section 479, which required the Federal Government to institute a foster care and adoption assistance data collection system.

### **Statewide Automated System**

As part of the Omnibus Budget Reconciliation Act of 1993 (OBRA) and the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Congress provided Federal funding for SACWIS under Title IV-E. The legislation provided each State with the opportunity to receive Federal reimbursement at an enhanced rate of 75 percent to plan, design, develop, and implement a SACWIS. The enhanced rate was available for projects in development during the period October 1, 1993, through September 30, 1997, and was reduced to 50 percent thereafter. After a system became operational, Federal reimbursement under Title IV-E was at the 50-percent rate. Section 474 of the Social Security Act also provided that Title IV-E would absorb all system costs for foster care and adopted children without regard to their Federal eligibility.

## **California Statewide Automated System**

In 1989, California enacted Senate Bill 370, 1989 Cal. Stat. chapter 1294, which required a single statewide CWS/CMS to be implemented by July 1, 1993. In 1993, ACF approved the State's request for enhanced Federal funding under the provisions of OBRA. The State and counties jointly developed CWS/CMS as an automated online case management system to allow child welfare workers to share and track information on child welfare service cases from initial contact through termination of services. The primary objective of CWS/CMS is to manage all child welfare service programs; assist in providing adequate services for children at risk of abuse, neglect, and exploitation; and meet the objectives that Senate Bill 370 mandated.

The State began implementation of CWS/CMS in June 1996. Statewide implementation was completed by December 1997.

## **Administration of California's Statewide Automated System**

California's child welfare service programs are supervised by the State and administered by the 58 counties. Each county organizes and operates its own programs based on local needs but must comply with Federal and State regulations.

Allowable CWS/CMS-related costs may be claimed under Title IV-E. Each quarter, each county submits operating costs for CWS/CMS-related activities to the State. Operating costs include the use of supplies, software, hardware, and personnel directly associated with the functioning of the automated system. The State consolidates these costs and submits a claim under Title IV-E to the Federal Government for reimbursement at the 50-percent rate.

## **Sacramento County**

Before CWS/CMS implementation, each county had the option to operate a system with either a coexistent or dedicated status. A county with a coexistent status shares system applications, including CWS/CMS, within the same operating environment. A county with a dedicated status limits the operating environment to the CWS/CMS application.

In November 1997, Sacramento implemented CWS/CMS. Sacramento chose a coexistent status and integrated the CWS/CMS application into its operating environment with other child welfare service system applications within its Child Protective Services Division (the Division).

The Division provides a wide range of services to ensure the health, safety, and well-being of children. The Division operates 10 programs, which include Emergency Response, Family Reunification, and Adoptions. These programs use 12 system applications, including CWS/CMS.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether CWS/CMS-related operating costs that Sacramento claimed for Title IV-E reimbursement were allowable under Federal and State regulations.

### **Scope**

Our audit period was January 1, 1999, through June 30, 2003. For this period, Sacramento claimed \$11,181,417 as CWS/CMS-related operating costs for reimbursement under Title IV-E. We reviewed costs that Sacramento claimed to determine whether the costs were related to the operation of CWS/CMS. We limited our review of internal controls to the procedures that the State and Sacramento used to approve, allocate, and claim costs for reimbursement under Title IV-E. Meeting the audit objective did not require a complete understanding or assessment of the internal controls of either the State or Sacramento. We conducted fieldwork at the ACF office in the District of Columbia and at State and Sacramento County offices in Sacramento, California.

### **Methodology**

To accomplish our objective, we:

- reviewed Federal and State regulations, policies, and procedures pertaining to reimbursement of CWS/CMS-related operating costs;
- interviewed ACF, State, and Sacramento officials;
- obtained an understanding of project and fiscal monitoring of CWS/CMS-related activities at the State and Sacramento;
- obtained an understanding of the process that the State used to claim Federal reimbursement for Sacramento's CWS/CMS-related operating costs;
- reviewed Sacramento's policies and procedures for claiming CWS/CMS-related operating costs;
- reviewed Sacramento's requests for CWS/CMS-related acquisitions of data processing equipment and services;
- traced and reconciled Sacramento's claimed costs for reimbursement under Title IV-E to supporting documentation;

- analyzed documentation supporting CWS/CMS-related operating costs that Sacramento claimed; and
- discussed our findings and recommendations with State and Sacramento officials.

We performed the audit in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

During the period January 1, 1999, through June 30, 2003, Sacramento claimed \$11,181,417 as CWS/CMS-related operating costs for reimbursement under Title IV-E. We found that \$3,984,138 was not allowable under Federal and State regulations, and we could not determine the allowability of the remaining \$7,197,279.

- Sacramento claimed \$3,984,138 (\$1,992,069 Federal share) of unallowable costs that were not (1) directly related to the operation of CWS/CMS as required by 45 CFR § 95.605, (2) submitted for State approval as required by ACF Action Transmittal 93-3 and State Division 28 Regulations, or (3) adequately supported as required by Office of Management and Budget (OMB) Circular A-87.<sup>1</sup>
- For the balance of \$7,197,279 (\$3,598,640 Federal share), Sacramento claimed operating costs that were not allocated to all child welfare service system applications shared on the county's network as required by OMB Circular A-87. These costs related not only to the operation of CWS/CMS but also to other system applications and activities within Sacramento. Until Sacramento properly allocates these costs to the benefiting system applications and activities, we are unable to determine how much of the \$3,598,640 Federal share was properly claimed.

Sacramento improperly claimed the \$11,181,417 because it did not have adequate internal controls to ensure that (1) only costs directly related to the operation of CWS/CMS were claimed for Federal reimbursement under Title IV-E, (2) all requests for CWS/CMS-related acquisitions of data processing equipment and services were submitted to the State for prior approval, (3) all costs claimed were adequately supported, and (4) operating costs were properly allocated to all child welfare service system applications or activities shared on the county network.

### **COSTS NOT ALLOWABLE**

Sacramento claimed \$3,984,138 (\$1,992,069 Federal share) of costs for reimbursement under Title IV-E that were not allowable under Federal and State regulations. These unallowable costs consisted of \$3,272,890 that was not directly related to the operation of CWS/CMS, \$691,371 that was not submitted for State approval, and \$19,877 that was not adequately supported.

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<sup>1</sup>The ACF action transmittals outline actions that grantees are expected or required to take and clarify program regulations and requirements. The OMB Circular A-87 establishes cost principles for Federal awards to State, local, and Indian tribal governments.

## **Costs Not Related to the Operation of the Child Welfare Services Case Management System**

As part of OBRA and the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Congress provided Federal funding for SACWIS under Title IV-E. The legislation provided each State with the opportunity to receive Federal reimbursement at an enhanced rate of 75 percent to plan, design, develop, and implement a SACWIS. After a system becomes operational, Federal regulations (45 CFR § 1355.52 (c)) state: “Expenditures for the operation of the automated information system . . . are eligible for [Federal reimbursement] at the 50 percent matching rate.”

Pursuant to 45 CFR § 95.605: “Operation means the automated processing of data used in the administration of State plans for . . . [Title] IV-E . . . . Operation includes the use of supplies, software, hardware and personnel directly associated with the functioning of the [automated] system.”

Sacramento claimed \$3,272,890 of costs that did not meet the eligibility requirement for reimbursement under Title IV-E because these costs were not directly related to the operation of CWS/CMS. These costs were for data entry services, rental expenses, security guard services, procurement services, county staff salaries, programming services, and miscellaneous expenditures.

- **Data entry services.** Sacramento claimed \$2,845,449 for data entry services provided by both contracted and county staff to assist caseworkers in maintaining child welfare case files. These staff entered case-related data into CWS/CMS. Data entry is an activity that a system user, such as a caseworker, performs and has no effect on the operation or programming of the automated system itself. The data entry services provided by contracted and county staff did not include the use of supplies, software, hardware, or personnel directly associated with the automated functioning of CWS/CMS.
- **Rental expenses.** Sacramento claimed \$133,203 for rental expenses for a building that the Division used. These expenses were not directly associated with the functioning of CWS/CMS.
- **Security guard services.** Sacramento claimed \$106,588 for security guard services provided to Division sites that conducted child welfare activities. These services were not directly associated with the functioning of CWS/CMS.
- **Procurement services.** Sacramento claimed \$70,431 for procurement services related to the administration of the Division. These services included obtaining competitive bids and procuring equipment for the Division and were not directly associated with the functioning of CWS/CMS.
- **County staff salaries.** Sacramento claimed \$49,411 for county staff salaries, consisting of \$35,196 for excess salary costs claimed because of calculation errors

and \$14,215 for salaries of two county employees who worked on activities not directly associated with the functioning of CWS/CMS.

- **Programming services.** Sacramento claimed \$40,935 for programming services that benefited other county system applications within the Division.
- **Miscellaneous expenditures.** Sacramento claimed \$26,873 for miscellaneous expenditures that were not directly associated with the functioning of CWS/CMS. This amount included costs for copier and room rentals, office supplies and furniture, baby car seats, business cards, and catering.

Sacramento improperly claimed these costs because it did not have adequate internal controls to ensure that it claimed only CWS/CMS-related operating costs for Title IV-E reimbursement. Although these costs were not reimbursable as CWS/CMS-related under Title IV-E, we acknowledge that a portion of these costs may have been reimbursable as administrative costs under Title IV-E or other Federal programs.

### **Costs Not Submitted for State Approval**

In Action Transmittal 93-3, dated January 3, 1993, ACF clarified States' responsibilities for monitoring and approving project costs for data processing acquisitions: "All acquisitions of [data processing] equipment or services . . . undertaken in support of Federally funded public assistance and social services programs . . . must be approved within the State agency." Additionally, State Division 28 Regulations, Chapter 28-105, require "prior review and written approval from [the State] . . ." for these acquisitions. [Emphasis added.] The OMB Circular A-87, Attachment A, section C.1.c, provides that costs must be authorized or not prohibited under State or local laws or regulations.

Sacramento did not always follow State regulations to submit all requests for CWS/CMS-related acquisitions of data processing equipment and services to the State for approval. As a result, Sacramento claimed \$691,371 for data processing equipment acquisitions and services that were not submitted for State approval and were therefore unallowable.

These costs were improperly claimed because Sacramento officials believed that the State regulations did not apply to the costs claimed and that prior approval was unnecessary.

### **Costs Not Adequately Supported**

The OMB Circular A-87, Attachment A, section C.1.j, states that costs must be adequately documented to be allowable for reimbursement under Federal awards.

Sacramento could not provide sufficient documentation to support that \$19,877 claimed was directly related to the operation of CWS/CMS. Based on accounting records, the \$19,877 represented staff services and other costs. We were unable to trace these costs to determine whether they were directly associated with the functioning of CWS/CMS. According to Sacramento officials, the documentation could not be found.

## **COSTS NOT ALLOCATED TO ALL CHILD WELFARE SERVICE SYSTEM APPLICATIONS OR ACTIVITIES**

### **Federal Requirements**

Pursuant to OMB Circular A-87, Attachment A, section C.3.a: “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.” Additionally, 45 CFR § 95.605 states that “Operation includes the use of supplies, software, hardware and personnel directly associated with the functioning of the [automated] system.”

### **Unallocated Costs**

Sacramento claimed \$7,197,279 (\$3,598,640 Federal share) as costs related to the operation of CWS/CMS for reimbursement under Title IV-E. However, these costs related not only to the operation of CWS/CMS but also to other system applications and activities within Sacramento. Based on supporting documentation reviewed, Sacramento did not allocate these costs to the other system applications and activities that benefited as required by Federal regulations. Until Sacramento allocates these costs, we are unable to determine how much of the \$3,598,640 Federal share was properly claimed.

Of the \$7,197,279 claimed, \$4,560,744 was for information technology and programming services, \$1,666,793 was for data processing equipment acquisitions and services, and \$969,742 was for salaries and related expenses.

#### *Information Technology and Programming Services*

The \$4,560,744 represented contracted costs for information technology and programming services that Sacramento stated were provided to the Division. Sacramento claimed these costs as CWS/CMS-related even though some of the services also benefited other system applications and activities within the Division. Because Sacramento did not require the information technology or programming staff to track the actual time spent on specific applications or activities, it did not allocate the costs to all benefiting system applications or activities.

#### *Data Processing Equipment Acquisitions and Services*

The \$1,666,793 represented costs for data processing equipment acquisitions and services that Sacramento stated were related to CWS/CMS. Although Sacramento requested and received prior State approval for these costs, it was unable to demonstrate that it used these acquisitions and services solely for the operation of CWS/CMS. Sacramento did not have any procedures to identify, track, and allocate these costs.

#### *Salaries and Related Expenses*

The \$969,742 represented Division staff salaries and related expenses that Sacramento stated were for activities related to CWS/CMS. However, some of these staff conducted activities that were not related to CWS/CMS. For example, the CWS/CMS program manager also supervised data entry staff, an activity that was not directly associated with the functioning of CWS/CMS.

Sacramento claimed her entire salary as CWS/CMS related instead of allocating her salary to all benefiting system applications and activities.

### **Lack of Adequate Procedures**

Sacramento improperly claimed these costs because it did not have adequate procedures to properly allocate operating costs to all system applications or activities shared on the county network. Because of Sacramento's inadequate internal controls, we could not determine the allowability of the \$7,197,279 claimed.

### **RECOMMENDATIONS**

We recommend that the State:

- refund the \$1,992,069 Federal share of the \$3,984,138 of unallowable costs claimed;
- work with ACF to determine what portion of the \$7,197,279 (\$3,598,640 Federal share) is allowable for reimbursement under Title IV-E and refund the Federal share of any unallowable costs identified;
- review costs that Sacramento claimed for reimbursement under Title IV-E subsequent to the audit period for issues similar to those identified and refund the Federal share of any unallowable costs identified; and
- instruct Sacramento to strengthen internal controls to ensure that costs claimed are (1) directly related to the operation of CWS/CMS and allowable under Title IV-E, (2) submitted to the State for prior approval, (3) adequately supported, and (4) properly allocated to all child welfare service system applications or activities shared on the county network.

### **STATE'S COMMENTS**

In comments on the draft report regarding the \$3,984,138 of unallowable costs claimed:

- The State agreed that it improperly claimed \$3,272,890 as directly related to the operation of CWS/CMS. It stated that it would work with Sacramento to determine what portion of these funds are reimbursable as administrative costs under Title IV-E or other Federal programs and would properly allocate these costs to the appropriate funding source.
- The State agreed that \$691,371 was not submitted for prior State approval but maintained that State Division 28 Regulations do not require prior approval for projects under the \$10,000 threshold. The State said that it would work with Sacramento to identify claims that were under the threshold and adjust the claims accordingly.

- The State agreed that \$19,877 was not adequately supported and agreed to refund the \$9,939 Federal share.

The State said that it did not concur with the findings related to \$7,197,279 of costs not allocated to all child welfare service system applications or activities. The State said that it was unreasonable to disallow all the costs associated with information technology staff assigned to the Child Welfare Services program. Nevertheless, the State said that it would work with Sacramento to establish an appropriate methodology to allocate these costs and would share the information with ACF and resolve this finding appropriately.

The State did not directly comment on our recommendations to review CWS/CMS costs claimed subsequent to the audit period and to instruct Sacramento to strengthen internal controls. The full text of the State's comments is included as the Appendix.

### **OFFICE OF INSPECTOR GENERAL'S RESPONSE**

We maintain that our findings and recommendations are valid. Specifically, the State should refund the \$1,636,445 Federal share of the \$3,272,890 of costs improperly claimed as directly related to CWS/CMS. For the costs that the State determines are allocable to other Federal programs, the State should ensure that these costs are fully supported and allowable under Federal regulations. Also, the State should refund the \$345,685 Federal share of the \$691,371 of costs not submitted for State approval. At the time of our audit, Sacramento could not demonstrate that the costs making up this amount related to individual projects that were below the \$10,000 threshold.

Regarding the \$7,197,279 of unallocated costs, we did not recommend a disallowance of these costs. We recommended that the State work with ACF to determine what portion was allowable for reimbursement and refund the Federal share of any unallowable costs identified.

Also, the State should implement the final two recommendations.

# **APPENDIX**

**DEPARTMENT OF SOCIAL SERVICES**  
744 P Street, Sacramento, CA 95814



December 11, 2006

Ms. Lori Ahlstrand  
Regional Inspector General for Audit Services  
U.S. Department of Health & Human Services  
Region IX  
50 United Nations Plaza, Room 171  
San Francisco, California 94102

Dear Ms. Ahlstrand:

**SUBJECT:** Audit of Costs Claimed for the Statewide Automated Child Welfare  
Information System in California (CIN A-09-05-00060)

This letter is in response to your September 27, 2006 letter which provided us with the draft report entitled "Audit of Costs Claimed for the Statewide Automated Child Welfare Information System in California" (CIN A-09-05-00060) for Sacramento County, January 1, 1999 through June 30, 2003." Enclosed are the California Department of Social Services responses to the findings.

If you have any questions, please contact me at (916) 657-2598 or Mary Ault, Deputy Director of the Children and Family Services Division, at (916) 657-2614.

Sincerely,

A handwritten signature in black ink that reads "Cliff Allenby".

CLIFF ALLENBY  
Interim Director

Enclosure(s)

## Sacramento County findings, Recommendations and Responses for Audit Period January 1, 1999 through June 30, 2003

### Summary of Findings

During the period of January 1, 1999 through June 30, 2003, Sacramento claimed \$11,181,417 as CWS/CMS related operating costs for reimbursement under Title IV-E. We found that \$3,984,138 was not allowable under Federal and State regulations, and we could not determine the allowability of the remaining \$7,197,279.

Sacramento claimed \$3,984,138 (\$1,992,069 Federal share) of unallowable costs that were not (1) directly related to the operation of CWS/CMS as required by 45 CFR 95.605, (2) submitted for State approval as required by ACF Action Transmittal 93-3 and State Division 28 Regulations, or (3) adequately supported as required by Office of Management and Budget (OMB) Circular A-87.

For the balance of \$7,197,279 (\$3,598,640 Federal share) Sacramento claimed operating costs that were not allocated to all child welfare service system applications shared on the county's network as required by OMB Circular A-87. These costs related not only to the operation of CWS/CMS but also to other system applications and activities within Sacramento. Until Sacramento properly allocates these costs to the benefiting system applications and activities, we are unable to determine how much of the \$3,598,640 Federal share was properly claimed.

Sacramento improperly claimed the \$11,181,417 because it did not have adequate internal controls to ensure that (1) only costs directly related to the operation of CWS/CMS were claimed for Federal reimbursement under Title IV-E, (2) all requests for CWS/CMS-related acquisitions of data processing equipment and services were submitted to the State for prior approval, (3) all costs claimed were adequately supported, and (4) operating costs were properly allocated to all child welfare service system applications or activities shared on the county network.

### Recommendations

We recommend that the State:

- Refund the \$1,992,069 Federal share of the \$3,984,138 of unallowable costs claimed;

The breakdowns of the \$3,984,138 of unallowable costs claimed are described below:

#### Costs Not Related to the Operation of the CWS/CMS

Sacramento claimed \$3,272,890 of costs that did not meet the eligibility requirement for reimbursement under Title IV-E because these costs were not directly related to the operation of CWS/CMS. These costs were for data entry services, rental expenses, security guard services; procurement services county staff salaries, programming services, and miscellaneous expenditures.

- **Data Entry Services.** Sacramento County claimed \$2,845,449 for data entry services provided by both contracted and county staff to assist caseworkers in maintaining child welfare case files. These staff entered case related data into CWS/CMS. Data entry is an activity that a system user, such as a caseworker,

**Sacramento County findings, Recommendations and Responses for  
Audit Period January 1, 1999 through June 30, 2003**

performs and has no effect on the operation or programming of the automated system itself. The data entry services provided by contracted and county staff did not include the use of supplies, software, hardware or personnel directly associated with the automated functioning of CWS/CMS.

**Sacramento County's Response:** Sacramento County concurs with this finding that it's not an allowable SACWIS cost. Sacramento County will work with CDSS to properly allocate these costs to the appropriate funding source.

**CDSS Response:**

CDSS concurs with the finding that these costs were improperly claimed as directly related to the operation of CWS/CMS. CDSS and Sacramento County will work together to determine what portion of these funds are reimbursable as administrative costs under Title IV-E or other federal programs and will properly allocate the costs to the appropriate funding source.

- **Rental Expenses.** Sacramento claimed \$133,203 for rental expenses for a building that the Division used. These expenses were not directly associated with the functioning of CWS/CMS.

**Sacramento County's Response:** Sacramento County concurs with this finding that it's not an allowable SACWIS cost. Sacramento County will work with CDSS to properly allocate these costs to the appropriate funding source.

**CDSS Response:**

CDSS concurs with the finding that these costs were improperly claimed as directly related to the operation of CWS/CMS. CDSS and Sacramento County will work together to determine what portion of these funds are reimbursable as administrative costs under Title IV-E or other federal programs and will properly allocate the costs to the appropriate funding source.

- **Security Guard Services.** Sacramento claimed \$106,588 for security guard services provided to Division sites that conducted child welfare activities. These services were not directly associated with the functioning of CWS/CMS.

**Sacramento County's Response:** Sacramento County concurs with this finding that it's not an allowable SACWIS cost. Sacramento County will work with CDSS to properly allocate these costs to the appropriate funding source.

**CDSS Response:**

CDSS concurs with the finding that these costs were improperly claimed as directly related to the operation of CWS/CMS. CDSS and Sacramento County will work together to determine what portion of these funds are reimbursable as administrative costs under Title IV-E or other federal programs and will properly allocate the costs to the appropriate funding source.

**Sacramento County findings, Recommendations and Responses for  
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- **Procurement Services.** Sacramento claimed \$70,431 for procurement services related to the administration of the Division. These services included obtaining competitive bids and procuring equipment for the Division and were not directly associated with the functioning of CWS/CMS.

**Sacramento County's Response:** Sacramento County concurs with this finding that it's not an allowable SACWIS cost. Sacramento County will work with CDSS to properly allocate these costs to the appropriate funding source.

**CDSS Response:**

CDSS concurs with the finding that these costs were improperly claimed as directly related to the operation of CWS/CMS. CDSS and Sacramento County will work together to determine what portion of these funds are reimbursable as administrative costs under Title IV-E or other federal programs and will properly allocate the costs to the appropriate funding source.

- **County Staff Salaries.** Sacramento claimed \$49,411 for county staff salaries consisting of \$35,196 for excess salary costs claimed because of calculation errors and \$14,215 for salaries of two county employees who worked on activities not directly associated with the functioning of CWS/CMS.

**Sacramento County's Response:** Sacramento County concurs with this finding that it's not an allowable SACWIS cost. Sacramento County will work with CDSS to properly allocate these costs to the appropriate funding source.

**CDSS Response:**

CDSS concurs with the finding that these costs were improperly claimed as directly related to the operation of CWS/CMS. CDSS and Sacramento County will work together to determine what portion of these funds are reimbursable as administrative costs under Title IV-E or other federal programs and will properly allocate the costs to the appropriate funding source.

- **Programming Services.** Sacramento claimed \$40,935 for programming services that benefited other county system applications within the Division.

**Sacramento County's Response:** Sacramento County concurs with this finding that it's not an allowable SACWIS cost. Sacramento County will work with CDSS to properly allocate these costs to the appropriate funding source.

**CDSS Response:**

CDSS concurs with the finding that these costs were improperly claimed as directly related to the operation of CWS/CMS. CDSS and Sacramento County will work together to determine what portion of these funds are reimbursable as administrative costs under Title IV-E or other federal programs and will properly allocate the costs to the appropriate funding source.

### **Sacramento County findings, Recommendations and Responses for Audit Period January 1, 1999 through June 30, 2003**

- **Miscellaneous Expenditures.** Sacramento County claimed \$26,873 for miscellaneous expenditures that were not directly associated with the functioning of CWS/CMS. This amount included costs for copier and room rentals, office supplies and furniture, baby car seats, business cards and catering.

**Sacramento County's Response:** Sacramento County concurs with this finding that it's not an allowable SACWIS cost. Sacramento County will exclude catering costs and will work with CDSS to properly allocate the remaining costs to the appropriate funding source.

**CDSS Response:**

CDSS concurs with the finding that these costs were improperly claimed as directly related to the operation of CWS/CMS. CDSS and Sacramento County will work together to determine what portion of these funds are reimbursable as administrative costs under Title IV-E or other federal programs and will properly allocate the costs to the appropriate funding source.

**Costs Not Submitted for State Approval**

Sacramento did not always follow State regulations to submit all requests for CWS/CMS-related acquisitions of data processing equipment and services to the State for approval. As a result, Sacramento claimed \$691,371 for data processing equipment acquisitions and services that were not submitted for State approval and were therefore unallowable. These costs were improperly claimed because Sacramento officials believed that the State regulations did not apply to the costs claimed and that prior approval was not necessary.

**Sacramento County's Response:**

Sacramento County concurs that no APDs were submitted for approval.

Sacramento County believed that prior approval was not necessary for costs under the \$10,000 threshold according to the Division 28 Regulations (23-105 (d)(3)). When this was pointed out to the OIG Auditors, they claimed that the subsequent letter sent to All County Executive Sponsors and All County Points of Contact from the CWS/CMS system dated December 16, 1999 which stated that all costs should be reviewed would have precedence over the Division 28 Regulations. Sacramento County argues that these costs not submitted for approval are necessary for the administration of the Title IV-E program.

Until FY 2006/2007, the State of California OSI project office persisted that reviews for APDs were not necessary if the purchase was under the \$10,000 threshold. (See "Clarification to Aid County Preparation of the Advance Planning Document (APD) dated 09/26/2003 first page). Counties were notified by OSI for the first time during the April 2006 CAPE training held in Sacramento that all EDP purchases, regardless of the amount, would need APDs.

### **Sacramento County findings, Recommendations and Responses for Audit Period January 1, 1999 through June 30, 2003**

Due to this conflicting instruction from the State, Sacramento County is requesting a State and Federal waiver for the equipment purchased in this cost category to ensure that future replacements of these items may be eligible for State and Federal financial participation.

Sacramento County will work with CDSS to reallocate these costs to the appropriate funding source. Based on this reallocation, the Federal Financial Participation amount will be recalculated.

#### **CDSS Response:**

CDSS concurs with the finding. However, in accordance with State regulation, Division 28, Chapter 28-105 (d) (3), "The maximum amount the county or joint maintenance group may claim without prior approval from CDSS for any non-mandated project to enhance or modify existing automated systems shall be \$10,000 per project." CDSS and the county will work to identify claims which were under the \$10,000 threshold and will adjust the unallowable cost claim accordingly.

#### **Costs Not Adequately Supported**

The OMB Circular A-87, Attachment A, section C.1.j states that costs must be adequately documented to be allowable for reimbursement under Federal awards.

Sacramento could not provide sufficient documentation to support that **\$19,877** claimed was directly related to the operation of CWS/CMS. Based on accounting records, the \$19,877 represented staff services and other costs. We were unable to trace these costs to determine whether they were directly associated with the functioning of CWS/CMS. According to the Sacramento officials, the documentation could not be found.

#### **Sacramento County's Response**

Sacramento County concurs with this finding.

#### **CDSS Response:**

We recommend that the State refund the \$9,939 Federal share of the \$19,877 of unallowable cost claimed.

#### **Unallocated Costs**

Sacramento claimed **\$7,197,279 (\$3,598,640 Federal share)** as costs related to the operation of CWS/CMS for reimbursement under Title IV-E. However, these costs related not only to the operation of CWS/CMS but also to other system applications and activities within Sacramento. Based on supporting documentation reviewed, Sacramento did not allocate these costs to the other system applications and activities that benefited as required by Federal regulations. Until Sacramento allocates these costs, we are unable to determine how much of the \$3,598,640 Federal share was properly claimed.

Of the \$7,197,279 claimed, **\$4,560,744** was for information technology and programming services, **\$1,666,793** was for data processing equipment acquisitions and services, and **\$969,742** was for salaries and related expenses.

**Sacramento County findings, Recommendations and Responses for  
Audit Period January 1, 1999 through June 30, 2003**

- ***Information Technology and Programming Services***  
The \$4,560,744 represented contracted costs for information technology and programming services that Sacramento stated were provided to the Division. Sacramento claimed these costs as CWS/CMS-related even though some of the services also benefited other system applications and activities within the Division. Because Sacramento did not require the information technology or programming staff to track the actual time spent on specific applications or activities, it did not allocate the costs to all benefiting system applications or activities.

**Sacramento County's Response:** Sacramento County does not concur with this finding. Although there is a SACWIS component to these costs, Sacramento County is unable to determine at this time what the SACWIS portion of those costs would have been during those previous years. Therefore, Sacramento County will work with CDSS to properly allocate these costs to the appropriate Non-SACWIS funding source.

**CDSS Response:**

CDSS does not concur with this finding. Under OMB Circular A-87, these allowable costs for interagency services, outside of the central service cost allocation plan, and provided by one agency to another within the governmental unit, can be properly allocated to benefiting programs through a methodology that best measures the proportionate benefit of the service to each program's operations. CDSS and Sacramento County are working on establishing an allocation methodology based on the staff usage of systems related to the Child Welfare program. Once an allocation methodology has been established, the State will share the information with ACF (Administration for Children and Families) and resolve this finding appropriately.

- ***Data Processing Equipment Acquisitions and Services***  
The \$1,666,793 represented costs for data processing equipment acquisitions and services that Sacramento stated were related to CWS/CMS. Although Sacramento requested and received State approval for these costs, it was unable to demonstrate that it used these acquisitions and services solely for the operation of CWS/CMS. Sacramento did not have any procedures to identify, track, and allocate these costs.

**Sacramento County's Response:** Sacramento County does not concur with this finding. Although there is a SACWIS component to these costs, Sacramento County is unable to determine at this time what the SACWIS portion of those costs would have been during those previous years. Therefore, Sacramento County will work with CDSS to properly allocate these costs to the appropriate Non-SACWIS funding source.

**Sacramento County findings, Recommendations and Responses for  
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**CDSS Response:**

CDSS does not concur with this finding. State approval for CWS/CMS costs necessitates procedures to identify costs through an advance planning document, to allocate costs through an approved cost allocation methodology, and to track project costs through a completion report. Costs must be properly allocated to all benefiting programs through a methodology that best measures the proportionate benefit of the service to each program's operations. CDSS and Sacramento County are working on establishing an allocation methodology based on staff usage related to the Child Welfare Services program. Once an allocation methodology has been established, the State will share the information with ACF (Administration for Children and Families) and resolve this finding appropriately.

• ***Salaries and Related Expenses***

The \$969,742 represented Division staff salaries and related expenses that Sacramento stated were for activities related to CWS/CMS. However, some of these staff conducted activities that were not related to CWS/CMS. For example, the CWS/CMS program manager also supervised the data entry staff, an activity that was not directly associated with the functioning of CWS/CMS. Sacramento claimed her entire salary as CWS/CMS related instead of allocating her salary to all benefiting system applications and activities.

**Sacramento County's Response:** Sacramento County does not concur with this finding. Although there is a SACWIS component to these costs, Sacramento County is unable to determine at this time what the SACWIS portion of those costs would have been during those previous years. Therefore, Sacramento County will work with CDSS to properly allocate these costs to the appropriate Non-SACWIS funding source.

**CDSS Response:**

CDSS does not concur with this finding. CDSS and Sacramento County believe it to be unreasonable to completely disallow all of the cost associated with information technology staff assigned to the Child Welfare Service program. CDSS and Sacramento County are working together to establish an allocation methodology based on time reporting and/or system application and activity usage. The methodology will be applied to the cost codes associated with CWS/CMS Title IV-E case management activities and functions and other benefiting programs as appropriate. Once an allocation methodology has been established, the State will share the information with ACF (Administration for Children and Families) and resolve this finding appropriately.